

NORTHEAST COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2008

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Northeast Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2007 Election)		
Charles Corr	President	2007
Mark Neblung	Vice President	2009
Mary Smith	Board Member	2009
Mark Mahmens	Board Member	2007
Bill Costello	Board Member	2008

Board of Education (After September 2007 Election)

Charles Corr	President	2011
Mark Neblung	Vice-President	2009
Mary Smith	Board Member	2009
Richard Krogmann	Board Member	2011
Bill Costello	Board Member	2011

School Officials

Jim Cox	Superintendent	2008
Cindy McAleer	District Secretary/ Treasurer/Business Manager	2008
Brian Gruhn	Attorney	2008

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Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Northeast Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Northeast Community School District, Goose Lake, Iowa as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Northeast Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.


In accordance with Government Auditing Standards, we have also issued our report dated March 6, 2009 on our consideration of the Northeast Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 and 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of

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inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northeast Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2007 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

March 6, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Northeast Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,692,402 in fiscal 2007 to \$5,909,450 in fiscal 2008, while General Fund expenditures increased from \$5,714,255 in fiscal 2007 to \$5,959,793 in fiscal 2008. This resulted in a decrease in the District's General Fund balance from \$1,371,888 in fiscal 2007 to a balance of \$1,328,438 in fiscal 2008, a 3.77% decrease from the prior year.
- More cash available coupled with better interest rates enabled investment earnings in the General Fund to increase from \$77,102 in fiscal 2007 to \$78,269 in fiscal 2008.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Northeast Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Northeast Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Northeast Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Northeast Community School District Annual Financial Report

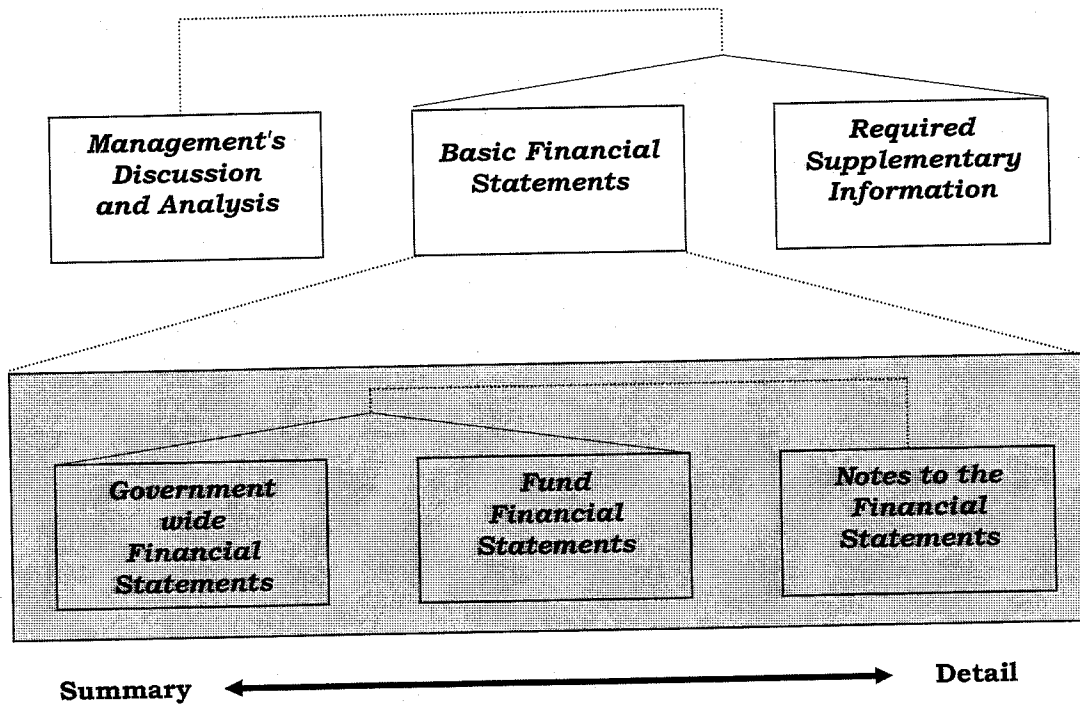


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	District-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Fund, and the Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2008 compared to the year ended June 30, 2007.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Current and other assets	\$ 4,486,094	4,606,687	84,026	73,484	4,570,120	4,680,171	-2.35%
Capital assets	5,657,508	5,612,076	28,326	37,316	5,685,834	5,649,392	0.65%
Total assets	10,143,602	10,218,763	112,352	110,800	10,255,954	10,329,563	-0.71%
Long-term liabilities	2,458,739	2,694,785	0	0	2,458,739	2,694,785	-8.76%
Other liabilities	2,564,531	2,659,605	17,214	13,820	2,581,745	2,673,425	-3.43%
Total liabilities	5,023,270	5,354,390	17,214	13,820	5,040,484	5,368,210	-6.10%
Net assets:							
Invested in capital assets, net of related debt	3,198,769	2,932,076	28,326	37,316	3,227,095	2,969,392	8.68%
Restricted	430,071	384,423	0	0	430,071	384,423	11.87%
Unrestricted	1,491,492	1,547,874	66,812	59,664	1,558,304	1,607,538	-3.06%
Total net assets	\$ 5,120,332	4,864,373	95,138	96,980	5,215,470	4,961,353	5.12%

The District's combined net assets increased by 5.12%, or \$254,117, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$45,648, or 11.87% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$49,234, or 3.06%. This decrease in unrestricted net assets was a result of the District's decrease in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2008 compared to June 30, 2007.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2008	2007	2008	2007	2008	2007	2007-08
Revenues:							
Program revenues:							
Charges for services	\$ 1,206,538	1,011,684	159,463	153,260	1,366,001	1,164,944	17.26%
Operating grants and contributions and restricted interest	711,283	617,280	107,212	95,051	818,495	712,331	14.90%
Capital grants and contributions and restricted interest	36,525	24,848	0	0	36,525	24,848	46.99%
General revenues:							
Property tax	2,276,834	2,267,341	0	0	2,276,834	2,267,341	0.42%
Local option sales and service tax	383,543	443,023	0	0	383,543	443,023	-13.43%
Unrestricted state grants	2,180,523	2,316,186	0	0	2,180,523	2,316,186	-5.86%
Unrestricted investment earnings	78,269	89,871	2,603	2,541	80,872	92,412	-12.49%
Other	35,994	48,930	0	0	35,994	48,930	-26.44%
Total revenues	6,909,509	6,819,163	269,278	250,852	7,178,787	7,070,015	1.54%
Program expenses:							
Governmental activities:							
Instructional	4,028,403	3,875,961	0	0	4,028,403	3,875,961	3.93%
Support services	2,110,323	1,954,316	0	19,143	2,110,323	1,973,459	6.94%
Non-instructional programs	5,469	2,901	271,120	233,850	276,589	236,751	16.83%
Other expenses	509,355	593,283	0	0	509,355	593,283	-14.15%
Total expenses	6,653,550	6,426,461	271,120	252,993	6,924,670	6,679,454	3.67%
Change in net assets	255,959	392,702	(1,842)	(2,141)	254,117	390,561	-34.94%
Beginning net assets	4,864,373	4,471,671	96,980	99,121	4,961,353	4,570,792	8.54%
Ending net assets	\$ 5,120,332	4,864,373	95,138	96,980	5,215,470	4,961,353	5.12%

In fiscal 2008, property tax and unrestricted state grants account for 64.51% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.03% of the revenue from business type activities.

The District's total revenues were approximately \$7.18 million of which \$6.91 million was for governmental activities and \$0.27 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 3.78% in revenues and a 6.05% increase in expenses. The increase in expenses was related to increases in instructional expenses.

Governmental Activities

Revenues for governmental activities were \$6,909,509 and expenses were \$6,653,550.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-08	2008	2007	Change 2007-08
Instruction	\$ 4,028,403	3,875,961	3.93%	2,310,249	2,442,846	-5.43%
Support services	2,110,323	1,954,316	7.98%	2,106,163	1,951,260	7.94%
Non-instructional programs	5,469	2,901	88.52%	5,469	2,901	88.52%
Other expenses	509,355	593,283	-14.15%	277,323	375,642	-26.17%
Totals	<u>\$ 6,653,550</u>	<u>6,426,461</u>	<u>3.53%</u>	<u>4,699,204</u>	<u>4,772,649</u>	<u>-1.54%</u>

- The cost financed by users of the District's programs was \$1,206,538.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$747,808.
- The net cost of governmental activities was financed with \$2,276,834 in property and other taxes, \$383,543 in local option sales and services tax, \$2,180,523 in unrestricted state grants, \$78,269 in interest on investments, and \$35,994 in other general revenue.

Business-Type Activities

Revenues of the District's business-type activities were \$269,278 and expenses were \$271,120. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Northeast Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,742,072, below last year's ending fund balances of \$1,764,192.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. The increase in expenditures was more than the increase in revenues, causing the General Fund balance to decrease.
- The General Fund balance decrease from \$1,371,888 to \$1,328,438, due primarily to increases in instructional expenses.
- The District's Special Revenue Student Activity fund balance decreased from \$43,845 in 2007 to \$15,861 in 2008, due primarily to a decrease in charges for services revenues and an increase in the expenses, during fiscal year 2008.
- The Special Revenue Management Levy Fund balance decrease from \$198,002 at June 30, 2007 to \$155,667 at June 30, 2008, representing a decrease of 21.38%.

-
- The Special Revenue Physical Plant and Equipment Levy (PPEL) fund balance increased from \$1,272 at June 30, 2007 to \$1,477, at June 30, 2008, due primarily to the increase in revenues from a capital lease.
 - The District's Capital Projects fund balance increased from \$128,146 in 2007 to \$215,437 in 2008, due primarily to an increase in other revenue, during fiscal year 2008.
 - The District's Debt Service fund balance increased from \$21,039 at June 30, 2007 to \$25,192 in 2008, due primarily to increase in local tax and other revenue, during fiscal year 2008.

Proprietary Fund Highlights

- School Nutrition Fund net assets decreased from \$96,980 at June 30, 2007, to \$95,138 at June 30, 2008, representing a decrease of 1.90%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$460,645 more than budgeted revenues, a variance of 6.86%. The District received more in local, state, federal and intermediate sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had invested \$5,685,834, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$326,823.

The original cost of the District's capital assets was \$10,732,739. Governmental funds account for \$10,587,709 with the remainder of \$145,030 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$454,946 at June 30, 2007 compared to \$590,411, reported at June 30, 2008. This increase resulted from the purchase of computers and other instructional equipment.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Land	\$ 116,677	116,677	0	0	116,677	116,677	0.00%
Construction in Progress	55,891	0	0	0	55,891	0	100.00%
Buildings	4,208,492	4,305,650	0	0	4,208,492	4,305,650	-2.26%
Land improvements	714,363	772,119	0	0	714,363	772,119	-7.48%
Machinery and equipment	562,085	417,630	28,326	37,316	590,411	454,946	29.78%
Total	\$ 5,657,508	5,612,076	28,326	37,316	5,685,834	5,649,392	0.65%

Long-Term Debt

At June 30, 2008, the District had \$2,458,739 in general obligation and other long-term debt outstanding. This represents a decrease of 8.76% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2008	2007	2007-08
General obligation bonds	\$ 2,050,000	2,305,000	-11.06%
Revenue bonds	250,000	375,000	-33.33%
Bus Lease	158,739	0	100.00%
Early retirement	0	14,785	-100.00%
Totals	\$ 2,458,739	2,694,785	-8.76%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Potential substantial increases in gasoline/diesel fuel and propane will impact the District's efforts to control expenditures.
- The October 2007 enrollment was down 17.4 students; however open enrollment in continues to increase which creates only a net increase of one student for total served enrollment.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cindy McAleer, Business Manager, Northeast Community School District, Box 66, 1450 370th Avenue, Goose Lake, Iowa, 52750.

BASIC FINANCIAL STATEMENTS

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 1,962,831	79,257	2,042,088
Receivables:			
Property tax:			
Delinquent	36,896	0	36,896
Succeeding year	1,952,314	0	1,952,314
Income surtax	194,640	0	194,640
Accounts	2,074	48	2,122
Due from other governments	337,339	0	337,339
Inventories	0	4,721	4,721
Capital assets, net of accumulated depreciation (Note 4)	5,657,508	28,326	5,685,834
TOTAL ASSETS	10,143,602	112,352	10,255,954
LIABILITIES			
Accounts payable	59,650	0	59,650
Salaries and benefits payable	537,418	13,107	550,525
Interest payable	15,149	0	15,149
Deferred revenue:			
Succeeding year property tax	1,952,314	0	1,952,314
Unearned revenue	0	4,107	4,107
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds	265,000	0	265,000
Revenue bonds	125,000	0	125,000
Bus Lease	78,791	0	78,791
Portion due after one year:			
General obligation bonds	1,785,000	0	1,785,000
Revenue bonds	125,000	0	125,000
Bus Lease	79,948	0	79,948
TOTAL LIABILITIES	5,023,270	17,214	5,040,484
NET ASSETS			
Invested in capital assets, net of related debt	3,198,769	28,326	3,227,095
Restricted for:			
Weighted limited english proficient	2,244	0	2,244
Dropout prevention	4,210	0	4,210
Salary improvement program	46	0	46
Professional development	912	0	912
Market factor	4,578	0	4,578
Market factor incentives	4,447	0	4,447
Management levy	155,667	0	155,667
Physical plant and equipment levy	1,477	0	1,477
Capital projects	215,437	0	215,437
Debt service	25,192	0	25,192
Other special revenue purposes	15,861	0	15,861
Unrestricted	1,491,492	66,812	1,558,304
TOTAL NET ASSETS	\$ 5,120,332	95,138	5,215,470

SEE NOTES TO BASIC FINANCIAL STATEMENTS

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Govern- mental Activities	Business- Type Activities	
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular instruction	\$ 2,602,366	764,076	472,005	0	(1,366,285)	0	(1,366,285)
Special instruction	677,998	283,077	4,373	0	(390,548)	0	(390,548)
Other instruction	748,039	159,385	35,238	0	(553,416)	0	(553,416)
	4,028,403	1,206,538	511,616	0	(2,310,249)	0	(2,310,249)
Support services:							
Student services	228,253	0	0	0	(228,253)	0	(228,253)
Instructional staff services	121,472	0	0	0	(121,472)	0	(121,472)
Administration services	631,826	0	0	0	(631,826)	0	(631,826)
Operation and maintenance of plant services	586,027	0	0	0	(586,027)	0	(586,027)
Transportation services	542,745	0	4,160	0	(538,585)	0	(538,585)
	2,110,323	0	4,160	0	(2,106,163)	0	(2,106,163)
Non-instructional programs	5,469	0	0	0	(5,469)		(5,469)
Other expenditures:							
Facilities acquisitions	40,587	0	0	36,525	(4,062)	0	(4,062)
Long-term debt interest	77,462	0	0	0	(77,462)	0	(77,462)
AEA flowthrough	195,507	0	195,507	0	0	0	0
Depreciation(unallocated)*	195,799	0	0	0	(195,799)	0	(195,799)
	509,355	0	195,507	36,525	(277,323)	0	(277,323)
Total governmental activities	6,653,550	1,206,538	711,283	36,525	(4,699,204)	0	(4,699,204)
Business-Type activities:							
Non-instructional programs:							
Nutrition services	271,120	159,463	107,212	0	0	(4,445)	(4,445)
Total business-type activities	271,120	159,463	107,212	0	0	(4,445)	(4,445)
Total	\$ 6,924,670	1,366,001	818,495	36,525	(4,699,204)	(4,445)	(4,703,649)
General Revenues:							
Local tax for:							
General purposes					\$ 1,899,310	0	1,899,310
Debt service					327,119	0	327,119
Capital outlay					50,405	0	50,405
Local option sales and services					383,543	0	383,543
Unrestricted state grants					2,180,523	0	2,180,523
Unrestricted investment earnings					78,269	2,603	80,872
Other general revenues					35,994	0	35,994
Total general revenues					4,955,163	2,603	4,957,766
Changes in net assets					255,959	(1,842)	254,117
Net assets beginning of year					4,864,373	96,980	4,961,353
Net assets end of year					\$ 5,120,332	95,138	5,215,470

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO BASIC FINANCIAL STATEMENTS

NORTHEAST COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	Other Nonmajor Governmental Funds	Total
ASSETS			
Cash and pooled investments:	\$ 1,658,816	304,015	1,962,831
Receivables:			
Property tax:			
Delinquent	29,451	7,445	36,896
Succeeding year	1,495,301	457,013	1,952,314
Income surtax	194,640	0	194,640
Accounts	2,074	0	2,074
Due from other governments	232,074	105,265	337,339
TOTAL ASSETS	<u>\$ 3,612,356</u>	<u>873,738</u>	<u>4,486,094</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 56,559	3,091	59,650
Salaries and benefits payable	537,418	0	537,418
Deferred revenue:			
Succeeding year property tax	1,495,301	457,013	1,952,314
Income surtax	194,640	0	194,640
Total liabilities	<u>2,283,918</u>	<u>460,104</u>	<u>2,744,022</u>
Fund balances:			
Reserved for:			
Debt service	0	25,192	25,192
Weighted limited english proficient	2,244	0	2,244
Dropout prevention	4,210	0	4,210
Salary improvement program	46	0	46
Professional development	912	0	912
Market factor	4,578	0	4,578
Market factor incentives	4,447	0	4,447
Unreserved:			
Undesignated	1,312,001	388,442	1,700,443
Total fund balances	<u>1,328,438</u>	<u>413,634</u>	<u>1,742,072</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,612,356</u>	<u>873,738</u>	<u>4,486,094</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

NORTHEAST COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

Total fund balances of governmental funds (page 15)	\$ 1,742,072
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	5,657,508
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(15,149)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	194,640
Long-term liabilities, including bonds payable and early retirement are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(2,458,739)</u>
Net assets of governmental activities (page 13)	<u><u>\$ 5,120,332</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General	Other Nonmajor Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 1,861,164	799,213	2,660,377
Tuition	1,047,153	0	1,047,153
Other	144,565	200,846	345,411
Intermediate sources	29,470	0	29,470
State sources	2,727,325	0	2,727,325
Federal sources	99,773	0	99,773
Total revenues	5,909,450	1,000,059	6,909,509
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	2,568,345	87,036	2,655,381
Special instruction	677,998	0	677,998
Other instruction	578,194	169,968	748,162
	3,824,537	257,004	4,081,541
Support services:			
Student services	228,253	0	228,253
Instructional staff services	121,472	0	121,472
Administration services	625,546	4,338	629,884
Operation and maintenance of plant services	522,471	38,691	561,162
Transportation services	438,339	240,809	679,148
	1,936,081	283,838	2,219,919
Non-instructional programs:			
Community service and other	3,668	0	3,668
enterprise operations	0	1,801	1,801
Food service operations	3,668	1,801	5,469
Other expenditures:			
Facilities acquisitions	0	137,363	137,363
Long-term debt:			
Principal	0	380,000	380,000
Interest and fiscal charges	0	77,462	77,462
AEA flowthrough	195,507	0	195,507
	195,507	594,825	790,332
Total expenditures	5,959,793	1,137,468	7,097,261
Deficiency of revenues under expenditures	(50,343)	(137,409)	(187,752)
Other financing sources(uses):			
Proceeds from capital lease	0	158,739	158,739
Transfers in	0	131,564	131,564
Transfers out	0	(131,564)	(131,564)
Sale of equipment	6,893	0	6,893
Total other financing sources(uses)	6,893	158,739	165,632
Net change in fund balances	(43,450)	21,330	(22,120)
Fund balance beginning of year	1,371,888	392,304	1,764,192
Fund balance end of year	\$ 1,328,438	413,634	1,742,072

SEE NOTES TO BASIC FINANCIAL STATEMENTS

NORTHEAST COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2008

Net change in fund balances - total governmental funds (page 17) \$ (22,120)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays, and depreciation expense in the year are as follows:

Capital outlays	\$ (272,651)	
Depreciation expense	<u>318,083</u>	45,432

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Repaid	\$ 380,000	
Issued	<u>(158,739)</u>	221,261

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it was due.

(3,399)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental funds, as follows:

Early Retirement		<u>14,785</u>
------------------	--	---------------

Changes in net assets of governmental activities (page 14) \$ 255,959

SEE NOTES TO BASIC FINANCIAL STATEMENTS

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2008

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 79,257
Receivables:	
Other	48
Inventories	4,721
Capital assets, net of accumulated depreciation(Note 4)	<u>28,326</u>
Total assets	<u>112,352</u>
LIABILITIES	
Salaries and benefits payable	13,107
Unearned revenue	<u>4,107</u>
Total liabilities	<u>17,214</u>
NET ASSETS	
Invested in capital assets	28,326
Unrestricted	<u>66,812</u>
Total net assets	<u>\$ 95,138</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

NORTHEAST COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for services	\$ 159,426
Miscellaneous revenue	37
Total operating revenues	<u>159,463</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	94,169
Benefits	24,202
Services	6,022
Supplies	137,696
Depreciation	8,740
Other	41
Total operating expenses:	<u>270,870</u>
Operating loss	<u>(111,407)</u>
Non-operating revenues(expenses):	
Loss on asset disposal	(250)
State sources	3,526
Federal sources	103,686
Interest on investments	2,603
Total non-operating revenues(expenses)	<u>109,565</u>
Change in net assets	(1,842)
Net assets beginning of year	<u>96,980</u>
Net assets end of year	<u>\$ 95,138</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 159,828
Cash received from miscellaneous operating activities	37
Cash payments to employees for services	(115,427)
Cash payments to suppliers for goods or services	(120,188)
Net cash used in operating activities	<u>(75,750)</u>
Cash flows from non-capital financing activities:	
State grants received	3,526
Federal grants received	81,393
Net cash provided by non-capital financing activities	<u>84,919</u>
Cash flows from investing activities:	
Interest on investments	<u>2,603</u>
Net increase in cash and cash equivalents	11,772
Cash and cash equivalents at beginning of year	<u>67,485</u>
Cash and cash equivalents at end of year	<u>\$ 79,257</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (111,407)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	22,293
Depreciation	8,740
Decrease in inventories	1,278
Increase in accounts receivable	(48)
Increase in salaries and benefits payable	2,944
Increase in unearned revenue	450
Net cash used in operating activities	<u>\$ (75,750)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 79,257</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2008, the District received
Federal commodities valued at \$22,293.

SEE NOTES TO BASIC FINANCIAL STATEMENTS

NORTHEAST COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2008

(1) **Summary of Significant Accounting Policies**

The Northeast Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Goose Lake, Iowa, and the predominate agricultural territory in Clinton County. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Northeast Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Northeast Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Clinton Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The District reports the following nonmajor proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Land improvements	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed

or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Long-term Liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits in bank at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The certificates of deposit are classified as Category 1, which means the investments are insured and are held by the District in the District's name. Investments are stated at fair value.

At June 30, 2008, the District had investments in Iowa Schools Joint Investment Trust is as follows:

	<u>Fair Value</u>
ISJIT	<u>\$ 5</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit Risk. The investments in the Iowa School Joint Investment Trust were both rated at Aaa by Moody's Investors Services.

(3) Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	<u>\$ 131,564</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 116,677	0	0	116,677
Construction in progress	0	55,891	0	55,891
Total capital assets not being depreciated	<u>116,677</u>	<u>55,891</u>	<u>0</u>	<u>172,568</u>
Capital assets being depreciated:				
Buildings	6,761,198	40,885	0	6,802,083
Land improvements	1,196,195	0	0	1,196,195
Machinery and equipment	2,298,736	266,739	148,612	2,416,863
Total capital assets being depreciated	<u>10,256,129</u>	<u>307,624</u>	<u>148,612</u>	<u>10,415,141</u>
Less accumulated depreciation for:				
Buildings	2,455,548	138,043	0	2,593,591
Land improvements	424,076	57,756	0	481,832
Machinery and equipment	1,881,106	122,284	148,612	1,854,778
Total accumulated depreciation	<u>4,760,730</u>	<u>318,083</u>	<u>148,612</u>	<u>4,930,201</u>
Total capital assets being depreciated, net	<u>5,495,399</u>	<u>(10,459)</u>	<u>0</u>	<u>5,484,940</u>
Governmental activities capital assets, net	<u>\$ 5,612,076</u>	<u>45,432</u>	<u>0</u>	<u>5,657,508</u>
Business-type activities:				
Machinery and equipment	\$ 145,933	0	903	145,030
Less accumulated depreciation	108,617	8,740	653	116,704
Business-type activities capital assets, net	<u>\$ 37,316</u>	<u>(8,740)</u>	<u>250</u>	<u>28,326</u>

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular \$ 4,277

Support services:

Administration 5,262

Operation and maintenance of plant 24,865

Transportation 87,880

Unallocated depreciation 195,799

Total governmental activities depreciation expense \$ 318,083

Business-type activities:

Food services \$ 8,740

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation	\$ 2,305,000	0	255,000	2,050,000	265,000
Revenue Bonds	375,000	0	125,000	250,000	125,000
Bus Lease	0	158,739	0	158,739	78,791
Early Retirement	14,785	0	14,785	0	0
Total	<u>\$ 2,694,785</u>	<u>158,739</u>	<u>394,785</u>	<u>2,458,739</u>	<u>468,791</u>

General Obligation Bonds Payable

Details of the District's June 30, 2008 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue dated May 1, 2004			
	Interest Rates	Principal	Interest	Total
2009	2.75 %	\$ 265,000	64,123	329,123
2010	3.00	275,000	56,835	331,835
2011	3.00	280,000	48,585	328,585
2012	3.10	290,000	40,185	330,185
2013	3.25	300,000	31,195	331,195
2014	3.30	315,000	21,445	336,445
2015	3.40	325,000	11,050	336,050
Total		<u>\$ 2,050,000</u>	<u>273,418</u>	<u>2,323,418</u>

Revenue Bonds Payable

Details of the District's revenue bonded indebtedness are as follows:

Year		Bond issue dated April 1, 2004			
Ending	Interest				
June 30,	Rates	Principal	Interest	Total	
2009	2.25 %	\$ 125,000	3,748	128,748	
2010	2.25	125,000	936	125,936	
Total		\$ 250,000	4,684	254,684	

The District has pledged future local option sales and services tax revenues to repay the \$650,000 bonds issued in April 1, 2004. The bonds were issued for the purpose of financing a portion of the costs of a new school. The bonds are payable solely from the proceeds of the local option and service tax revenues received the District and are payable through 2010. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 35 percent of the local option sales and services tax revenues. The total principal and interest remaining to be paid on the notes is \$254,684. For the current year, the local option sales and services tax revenue was \$383,544.

Bus Payable

Details of the District's bus lease indebtedness are as follows:

Year		Bus Lease dated September 27, 2007			
Ending	Interest				
June 30,	Rates	Principal	Interest	Total	
2009	4.50 %	\$ 78,791	4,755	83,546	
2010	4.50	79,948	3,598	83,546	
Total		\$ 158,739	8,353	167,092	

Early Retirement

The District last offered a voluntary early retirement plan to its certified employees during the 2004-2005 school year. Eligible employees had to be at least age fifty-five and must have completed twenty years of service to the District. Employees had to complete an application which was required to be approved by the Board of Education. The benefit amount was calculated as one-half of the employee's full-time 2004-2005 salary per the salary schedule. Early retirement benefits that were paid during the year ended June 30, 2008, totaled \$14,785.

(6) Property Lease

The District currently has a lease with the City of Goose Lake for rental of rooms for the District's alternative school. Payments are \$700 per month until either the District or the landlord terminates the lease.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual salary and the District is required to contribute 6.05% of annual covered payroll for the year ended June 30, 2008, 2007 and 2006. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$213,890, \$192,538, and \$182,306 respectively, equal to the required contributions for each year.

(8) Risk Management

Northeast Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$195,507 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Construction Commitments

The District has entered into various contracts for a playground project. As of June 30, 2008, costs of \$55,891 have been incurred against the contract.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHEAST COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2008

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 4,052,941	162,066	4,215,007	3,824,674	3,824,674	390,333
Intermediate sources	29,470	0	29,470	30,000	30,000	(530)
State sources	2,727,325	3,526	2,730,851	2,438,979	2,438,979	291,872
Federal sources	99,773	103,686	203,459	424,489	424,489	(221,030)
Total revenues	6,909,509	269,278	7,178,787	6,718,142	6,718,142	460,645
Expenditures:						
Instruction	4,081,541	0	4,081,541	4,221,350	4,221,350	139,809
Support services	2,219,919	0	2,219,919	2,462,400	2,462,400	242,481
Non-instructional programs	5,469	271,120	276,589	246,550	300,000	23,411
Other expenditures	790,332	0	790,332	1,120,380	1,120,380	330,048
Total expenditures	7,097,261	271,120	7,368,381	8,050,680	8,104,130	735,749
Excess (deficiency) of revenues over (under) expenditures	(187,752)	(1,842)	(189,594)	(1,332,538)	(1,385,988)	1,196,394
Other financing sources, net	165,632	0	165,632	1,500	1,500	164,132
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(22,120)	(1,842)	(23,962)	(1,331,038)	(1,384,488)	1,360,526
Balance beginning of year	1,764,192	96,980	1,861,172	1,922,191	1,922,191	(61,019)
Balance end of year	\$ 1,742,072	95,138	1,837,210	591,153	537,703	1,299,507

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NORTHEAST COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing non-instruction expenditures by \$53,450.

OTHER SUPPLEMENTARY INFORMATION

NORTHEAST COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

	Special Revenue Funds						Total Other Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Debt Service	
ASSETS							
Cash and pooled investments	\$ 154,981	16,067	575	171,623	113,057	19,335	304,015
Receivables:							
Property tax:							
Current year delinquent	686	0	902	1,588	0	5,857	7,445
Succeeding year	80,000	0	47,490	127,490	0	329,523	457,013
Due from other governments	0	0	0	0	105,265	0	105,265
TOTAL ASSETS	\$ 235,667	16,067	48,967	300,701	218,322	354,715	873,738
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 0	206	0	206	2,885	0	3,091
Deferred revenue:							
Succeeding year property tax	80,000	0	47,490	127,490	0	329,523	457,013
Total liabilities	80,000	206	47,490	127,696	2,885	329,523	460,104
Fund balances:							
Reserved for debt service	0	0	0	0	0	25,192	25,192
Unreserved fund balances	155,667	15,861	1,477	173,005	215,437	0	388,442
Total fund balances	155,667	15,861	1,477	173,005	215,437	25,192	413,634
TOTAL LIABILITIES AND FUND BALANCES	\$ 235,667	16,067	48,967	300,701	218,322	354,715	873,738

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NORTHEAST COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	Special Revenue Funds						Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Debt Service	Other Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax	\$ 38,145	0	50,405	88,550	383,544	327,119	799,213
Other	16,167	141,984	0	158,151	39,763	2,932	200,846
TOTAL REVENUES	54,312	141,984	50,405	246,701	423,307	330,051	1,000,059
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	37,445	0	0	37,445	49,591	0	87,036
Other instruction	0	169,968	0	169,968	0	0	169,968
Support services:							
Administration services	4,338	0	0	4,338	0	0	4,338
Operation and maintenance of plant services	38,691	0	0	38,691	0	0	38,691
Student transportation	14,372	0	208,939	223,311	17,498	0	240,809
Non-instructional programs:							
Food service operations	1,801	0	0	1,801	0	0	1,801
Other expenditures:							
Facilities acquisitions	0	0	0	0	137,363	0	137,363
Long-term debt:							
Principal	0	0	0	0	0	380,000	380,000
Interest and fiscal charges	0	0	0	0	0	77,462	77,462
TOTAL EXPENDITURES	96,647	169,968	208,939	475,554	204,452	457,462	1,137,468
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(42,335)	(27,984)	(158,534)	(228,853)	218,855	(127,411)	(137,409)
OTHER FINANCING SOURCES (USES):							
Proceeds from capital lease	0	0	158,739	158,739	0	0	158,739
Transfers in	0	0	0	0	0	131,564	131,564
Transfers out	0	0	0	0	(131,564)	0	(131,564)
TOTAL OTHER FINANCING SOURCE (USES)	0	0	158,739	158,739	(131,564)	131,564	158,739
NET CHANGE IN FUND BALANCES	(42,335)	(27,984)	205	(70,114)	87,291	4,153	21,330
FUND BALANCE BEGINNING OF YEAR	198,002	43,845	1,272	243,119	128,146	21,039	392,304
FUND BALANCE END OF YEAR	\$ 155,667	15,861	1,477	173,005	215,437	25,192	413,634

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NORTHEAST COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 2,911	2,063	2,232	2,742
Music	0	75	75	0
Golf	0	1,066	1,066	0
HS Cheerleading	0	720	2,967	(2,247)
Cheerleading Fundraiser	562	1,140	1,649	53
MS Boys Basketball	0	197	197	0
HS Boys Basketball	0	4,080	2,974	1,106
HS Boys Basketball Tournament	6,428	0	801	5,627
MS Football	0	296	296	0
HS Football	60	13,224	12,611	673
HS Football Fundraising	700	6,204	6,058	846
Baseball	0	252	4,698	(4,446)
Baseball Fundraising	1,221	1,049	2,077	193
MS Boys Track	0	507	507	0
HS Boys Track	0	2,154	6,312	(4,158)
Boys Track Fundraising	2,302	6,325	8,052	575
MS Wrestling	0	1,221	1,221	0
HS Wrestling	269	4,616	4,885	0
Wrestling Fundraising	1,016	10,030	10,190	856
MS Girls Basketball	0	189	189	0
HS Girls Basketball	0	4,571	8,083	(3,512)
HS Girls Basketball Fundraising	420	905	1,275	50
MS Volleyball	8	328	336	0
HS Volleyball	170	2,705	2,875	0
HS Volleyball Fundraising	412	6,549	6,465	496
HS Softball	0	891	4,745	(3,854)
HS Softball Fundraising	2,601	2,529	4,368	762
MS Girls Track	0	457	457	0
HS Girls Track	0	1,705	5,550	(3,845)
HS Girls Track Fundraising	0	792	250	542
Activity General Activities	0	9,053	9,053	0
Activity Interest Account	0	383	383	0
Student Center-Vending Commissions	0	2,217	2,217	0
Post Prom	548	4,101	3,979	670
Student Leadership	185	566	700	51
Spanish Club	142	3,773	3,913	2
Dance Team	0	599	342	257
S.S.D.D.	0	2,983	2,234	749
NHS Fundraising	0	460	460	0
FBLA	2,284	8,717	8,844	2,157
FTA	2,697	0	264	2,433
FFA	10,226	23,023	25,607	7,642
MS Student Council	672	90	80	682
HS Student Council	247	1,323	1,358	212
Class of 2008	159	0	159	0
Class of 2009	1,543	137	1,680	0
Class of 2010	2,463	0	0	2,463
Class of 2011	2,494	0	0	2,494
Class of 2012	1,105	4,528	3,324	2,309
Class of 2013	0	1,231	46	1,185
6th Grade Store	0	1,960	1,864	96
Total	\$ 43,845	141,984	169,968	15,861

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NORTHEAST COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FIVE YEARS

	Modified Accrual Basis				
	Years Ended June 30,				
	2008	2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$ 2,660,377	2,692,210	2,547,106	2,580,192	2,686,990
Tuition	1,047,153	860,319	713,013	522,446	549,462
Other	345,411	317,999	328,816	379,225	267,975
Intermediate sources	29,470	36,864	38,159	36,975	31,654
State sources	2,727,325	2,777,706	2,772,517	2,654,881	2,551,781
Federal sources	99,773	115,911	106,236	150,752	217,338
Total	\$ 6,909,509	6,801,009	6,505,847	6,324,471	6,305,200
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$ 2,655,381	2,512,909	2,354,686	2,310,146	2,512,182
Special instruction	677,998	704,686	612,022	615,999	828,275
Other instruction	748,162	680,686	690,736	651,797	545,153
Support services:					
Student services	228,253	227,253	209,714	198,822	167,693
Instructional staff services	121,472	108,100	138,799	147,828	91,353
Administration services	629,884	590,011	608,683	607,246	565,233
Operation and maintenance of plant services	561,162	573,790	555,690	464,450	441,993
Transportation services	679,148	502,626	446,526	420,152	410,255
Non-instructional programs	5,469	2,901	2,663	1,386	774
Other expenditures:					
Facilities acquisitions	137,363	157,320	134,943	284,933	949,633
Long-term debt:					
Principal	380,000	370,000	360,000	2,940,000	208,000
Interest and other charges	77,462	85,858	93,423	263,183	204,897
AEA flow-through	195,507	192,793	186,543	185,900	189,565
Total	\$ 7,097,261	6,708,933	6,394,428	9,091,842	7,115,006

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the
Northeast Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Northeast Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 6, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northeast Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Northeast Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northeast Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Northeast Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Northeast Community School District's financial statements that is more than inconsequential will not be prevented or detected by Northeast Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Northeast Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-08 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Northeast Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Northeast Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Northeast Community School District and other parties to whom Northeast Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Northeast Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 6, 2009

NORTHEAST COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

- I-A-08 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will review our procedures to obtain the maximum internal control, possible..

Conclusion - Response accepted.

- I-B-08 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - Per Chapter 556.1(10) and 556.11 of the Code of Iowa, the District is required to report unclaimed property to the State Treasurer annually before November 1st. The District should submit the outstanding checks to the State Treasurer as unclaimed property.

Response - The outstanding checks that are over one year old will be reviewed and submitted to the Treasurer, State of Iowa, if necessary.

Conclusion - Response accepted.

- I-C-08 Supporting Documents for Payments Made with Credit Card - It was noted during the audit, that when purchases are being made with credit cards, a detailed receipt is not always turned into the Central Office for supporting documentation of the purchase. The credit card receipt did not provide a detail description of the purchase.

Recommendation - The District has a policy in place for credit card usage, which states that the users need to provide detailed receipts for purchases made. The District should review their procedures in place with personnel to ensure that the proper detailed documentation will be available for supporting documentation. The District should require additional approval of expense, if proper documentation is not available.

Response - We will review our procedures and require detailed receipts.

Conclusion - Response accepted.

NORTHEAST COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part II: Other Findings Related to Required Statutory Reporting

IV-A-08 Certified Budget - District disbursements for the year ended June 30, 2008, did not exceed the amount budgeted.

II-B-08 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

However, during our audit, we noted that Superintendent, Principals, and Custodians were receiving free lunches from the District's nutrition program.

Recommendation - The District should discontinue this practice and require the employees to pay for their own lunches or add the value of the meals to the employees' W-2 as additional compensation. If the District allows the meals and includes them on the employee's W-2, then the General Fund should transfer the cost of meals to the Nutrition Fund.

Response - The District will include these expenses on the employee's W-2.

Conclusion - Response accepted.

II-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-08 Business Transactions - We noted no business transactions between the District and District officials or employees.

II-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-08 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-08 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-J-08 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - The District is now obtaining the image of the back of the checks for audit review.

Conclusion - Response accepted.

II-K-08 Financial Condition - The District had six deficit accounts balance in the Activity Fund totaling \$22,062.

Recommendation - The District should continue to monitor these accounts and investigate alternatives to eliminate the deficits.

Response - We will look at alternatives to eliminate negative activity fund balances.

Conclusion - Response accepted.